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A Weakened Treasury

Somewhere, Alexander Hamilton must be having a fit. The once considerable prestige of his Treasury Department is much eroded these days. The Bush administration's pursuit of its reckless fiscal policy of tax cuts at any cost and its brazen willingness to embrace protectionist measures like farm subsidies have undermined America's ability to lead on global economic matters, one of a Treasury secretary's key missions.

It was often said in the first two years of the Bush presidency that there was a considerable stature gap between Mr. Bush's foreign policy and defense team, on the one hand, and his economic team. So halftime substitutions were made. Out went Paul O'Neill, the gaffe-prone Treasury secretary who lacked credibility because he made it known that he did not fully believe in the policies he was being asked to sell. In came John Snow, whose credibility is impaired by the fact that he may actually believe in those policies, which are now discredited by everyone from the chairman of the Federal Reserve to many on Wall Street. Even worse, if he does not believe in them — Mr. Snow was once known as a deficit hawk — he is still willing to act the part of committed salesman.

His credibility in question, Mr. Snow has had a difficult time in recent weeks explaining the administration's policy on the dollar, which has lost almost a third of its value against the euro in the past year. The greenback had been overvalued, and its slide is not all bad. It gives American exports a boost and helps counteract deflationary pressures. But the euro's rise may harm the continent's already struggling economies.

The Treasury is right not to intervene to prop up the dollar, but the secretary is antagonizing America's trading partners by erring in the other direction by suggesting — without quite saying — that the administration has abandoned its strong dollar policy and that the currency still has a way to fall. That sows dangerous confusion in currency markets. If foreign investors are sufficiently unnerved, they could cause a financial panic by taking their money and investing it elsewhere.

The extent of the dollar's decline to date certainly amounts to a vote of no confidence in America's future prospects — it isn't as if Europe is attracting investment on its own merits. And an acceleration in our currency's decline would be a far greater threat than an overvalued dollar in light of our nation's reliance on huge net inflows of capital. This reliance will only grow with Mr. Bush's deficit-raising tax cuts.

Cutting taxes in the face of rising deficits is the crucial factor behind the lack of confidence in the dollar, and indeed in the American economy. It is one thing for President Bush to travel around the country, repeating at pep rallies that unaffordable tax cuts will create jobs and prosperity. It is quite another for his Treasury secretary to make the same case with a straight face to his fellow economic ministers around the world. The real issue here is not a devalued dollar, but this administration's devalued credibility to lead on global economic issues.